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Discussion regarding retiree health care benefits on behalf of the Michigan Education Association

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Health Insurance Premiums—Historical Background

We want to thank Representative Meadows and committee members to allow us the time to discuss with you information regarding the Michigan Public Schools Retirement System health insurance benefits.

Health care benefits for retirees have become an important tool for this state to attract and retain school employees. At the time these benefits were established, the cost for these was relatively low, and the state to cover these health care benefits with state appropriations, opted to fund them on a "pay as you go" basis. However this all changed as health care costs have escalated, and as such, the ability to fund these benefits on a "pay as you go" is coming into question.

It is important to note, that the health benefits plan provided to retirees pursuant to Section 91 of the retirement Act is a comprehensive health benefits plan which includes broad hospital, medical-surgical and sick care benefits, including prescription drugs. MPSERS provides, and from time-to-time has updated, summary plan descriptions informing retirees about their health benefits to which they are entitled. As is true with essentially all group health insurance plans provided by the State of Michigan and by private companies, new benefits, procedures, and drugs are from time-to-time, by operation of the plan, added to the health benefit package.

The retiree health plan is self-funded by MPSERS and is administered on a day to day basis for MPSERS by Blue Cross/ Blue Shield of Michigan under a contract of administration between BC/BSM and the State of Michigan.

Michigan Public School Employees Retirement System consists of all public school districts, intermediate school districts, public school academies, and community and junior colleges in the State of Michigan and seven universities (closed to new members on or after January 1, 1996), which are termed "reporting units," of which there are approximately 845. Members of MPSERS include all employees of the reporting units, including, but not limited to, administrators, classroom teachers, and other professional personnel, bus drivers, cooks, custodians, etc.

MPSERS has in excess of 305,000 members and approximately 161,882 retirees and beneficiaries who are entitled to receive the health benefits provided by the Retirement Board to its retirees and beneficiaries pursuant to section 91 of the Retirement Act.

The School Employee Health Care Plans

MPSERS makes medical, dental and vision insurance coverage available to pension recipients and their dependents.

The medical coverage provides members with basic hospital, medical-surgical, hearing care and prescription drug benefits. The Retirement System pays the entire monthly premium for retirees over age 65, with the exception of those retirees who elect spousal and dependent coverage. Retirees under age 65 pay a portion of the premium, that being a monthly premium equal to the Medicare Part B premium amount (currently $96.40 per month). In addition, the Retirement System pays 90 percent of the premium for all qualifying dependents.

The dental plan provides coverage for a wide range of dental service, including diagnostic, preventive, and restorative and prosthodontic procedures. The Retirement System pays 90 percent of the monthly premium for both the retiree and their dependents.

The vision plan provides routine vision care, and covers such things as the examination, corrective eye wear once every 24 consecutive months. The Retirement System pays 90 percent of the monthly premium for both the retiree and their dependents.

Who Pays for the Health Care Benefits

Health benefits for school retirees have, and will continue to be an important benefit. Retirees need comprehensive benefits at an affordable cost. It should come as no surprise to this committee that when there is a move to shift the costs of this health care plan from the participating employers to retirees, it takes needed dollars away from pensions.

Money to pay for these benefits is derived from the participating employers, (K-12 districts, community colleges and the seven universities) in the form of a health contribution rate that is paid to fund the retiree health benefits. That rate to pay for retiree health care is currently 6.55% of salary, and this has been the contribution rate for the last four years. In addition to employer contributions, there are interest earnings and retiree premium contributions that also help to fund these benefits.

It may be helpful to look historically at what has happened to health premiums for retired public school employees. It was pursuant to PA 244 of 1974 that made the retirement system a provider of health benefits to school retirees. The Michigan Public School Employees Retirement Board paid hospitalization and medical coverage insurance premiums ...not to exceed $25 per month. That Act further specified that the premiums should be paid "only during those fiscal years for which an appropriation is made which is sufficient to cover the premium payments likely to be made that year".

The Retirement Act was amended several times over the next few years. Each amendment increased the amount of the premium the State paid. In 1983, the Retirement Act was amended to provide that "the Retirement System shall pay the entire monthly premium..." 1983 PA 143.

In 1985, the statute governing health care benefits for MPSERS' retirees was amended extensively. While the State continued to pay the entire monthly premium for retirees' health benefits, that payment was no longer contingent on a yearly appropriation.
Instead, the statute required the Retirement Board to pay the entire monthly premium for any retirant or beneficiary receiving a monthly retirement allowance. The Act provides that MPSERS will pay 90% of the monthly premium or subscription fee for health, dental, vision and hearing benefits. Currently, if a non Medicare age retiree requires "Self" only coverage, the cost is $96.40 monthly or $1157 per year. On a plan that covers Self, Spouse, and Children, the cost is $175.02 monthly or $2,100 per year. On top of these costs, a retiree would have to pay added dollars to have vision and dental insurance.

What Else Do Retirees Pay For Their Health Benefits

The health plan provided by MPSERS has long included provisions for co-payment of drugs and since 1982, it included yearly deductibles that are to be paid by the retirants receiving health benefits.

From 1975 to 1981, MPSERS' retirants paid no deductible for their basic health insurance plan. Starting in 1982, the Retirement Board began requiring that retirants pay deductibles of $50 for single subscribers and $100 for family subscribers in order to receive their basic health insurance benefits. The deductibles were increased in 1982, 1995, 1997, 2000 and 2004 to the point that in the year 2008 retirants are required to pay $250 per year for single subscribers and $500 per year for family subscribers.

Additionally, in 2000, the Retirement Board voted to substantially increase the costs for their prescription drugs. Under the prior retail program, the cost went from $4 for generic prescriptions to **20%** of the drug's approved cost with $7 minimum and a **$32 maximum** (although this is scheduled to increase to $34 on April 1). For non-generic drugs, the cost went from $8 in 2000 to **40%** of the drug's cost, which translates into no limit to the out-of-pocket costs for non-generic prescription drugs. In addition to the copay increase on prescription drugs, in 2001 a "Formulary Plan" was implemented by the Retirement Board that designated specific drugs which the plan would pay for without penalty. Those retirees wishing to use the mail order program to purchase a three month supply of formulary drugs will incur a minimum cost of $17.50, and a **maximum of $80** (Increasing to $85 on April 1).

We know that medical inflation is rising faster than the rest of the economy and is having a marked impact on the cost of health care plans. .

A central question in any health insurance plan is how large should the co-insurance, copays, and deductibles be?

There is a clear tradeoff as retiree health costs rise. One might think that by shifting more costs to retirees will somehow induce the retiree to use health care benefits more efficiently. As the Kaiser Family Foundation noted in a recent study, with no co-insurance costs, patients have no financial disincentive to forgo care, even if it is of dubious value; but once patient bears some of the economic costs of receiving medical care, they are more likely to use only those health care services that are worth the additional cost that they must pay. The report further notes that if "co-insurance amounts are too high, that can lead individuals to avoid medical care which is actually necessary to their health and/or impose substantial financial burden".

It's our view that retirees have been continually stepping up to the plate to absorb increasing costs for their health benefits and frankly, they are given very little credit for doing so. If you look closely at the co-insurance premiums retirees pay, the deductibles they incur, the copays for prescription drugs, medical outpatient benefits, and other cost related provisions of this health plan, you cannot help but conclude that retirees are absorbing a substantial part of the increasing cost for their health benefits.

It is our view that this health insurance plan is diluting the benefits it pays when it shifts the rising medical costs to plan participants. The high inflation of medical costs and increased plan utilization is being leveraged from the plan to the participants.

What Can Be Done To Fund Health Care Benefits More Effectively?

Today, the integrity of the promise to provide health care to current and future retirees is at risk. It was in 1983 when the State Actuary recommended exploring alternate funding methods for retirant health insurance. At that time, the premium cash disbursement costs had risen from 0.42% of active member payroll in 1977/78 to 0.94% for FY 82/83. In January 1992, the Senate Fiscal Agency reported that paying cash disbursements—premium only for retirant health care benefits could, the agency speculated, by the year 2010; result in spending 100% of the state aid revenue for retiree health insurance.

It was to prevent this kind of expenditure explosion that the state, as a part of the 1985 retirement reform package, began actuarial funding (prefunding) of retiree health care. The concept, simply stated, was to save more today to build a cushion—a health benefits fund. The earnings from this fund, plus future appropriations, would then be sufficient to pay for retiree health care. This funding concept, while it would cost more in early years, would over time, level out the costs for all generations of retirees and taxpayers. Thus, future generations would not be required to pay for the obligations accrued by previous generations.

Unfortunately, a 1991 Executive Order suspended the required actuarial funding of health care benefits, and that was followed by legislation in 1993 that permanently abolished prefunding of health care.

What Can Be Done Today?

The MEA is aware of the potential impact that increased medical utilization, and health care inflation will have on the viability of the MPSERS health insurance plan. MEA and MEA-Retired are very concerned and aware of how the rising costs of health care for retirees, combined with the general practice of funding these benefits on a "pay as you go" basis, is a combination that will lead to serious budgetary problems in the years to come. This will adversely affect public school retirees as well as participating employers.

We would submit that the State policymakers can begin to take steps now to help resolve the problems created by increasing health care costs.

1. The Legislature needs to stop funding retiree health benefits by further shifting health care costs to retirees, as was the case in 1995, 1997, 1999, 2000, 2001, 2005, 2006 and 2008.

2. The Legislature needs to freeze copays and deductibles at current levels for all retired school employees. Retirees have incurred a significant financial burden with current copays and deductibles, and have not received any adjustments in their pensions to offset these unanticipated costs.

3. Most importantly, an effort must be undertaken to begin to prefund these health benefits. Doing so will ensure that the investments and earnings derived from these investments can help finance these health benefits by offsetting inflation and health care cost increases. Remember that in 1985, when prefunding was implemented, it was because State officials saw the problem on the horizon for public school retiree health care benefits. Those problems (health care inflation and increased utilization) remain today, and a return to the solution agreed upon in 1985 is crucial to maintaining the financial solvency for these very important programs. More importantly, moving to prefund these health benefits will ensure that the promise will be kept to provide current and future retirees with comprehensive, but yet affordable health care benefits.

Thank you for listening to these points. We would be glad to answer any question as time permits.